



Budget Tidbits... just the facts

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Budget Brief #2: (1/19/06) Pension Funding Policy – Not a Good Start, Part I

Part I of a two-part brief dedicated to pension funding, one of the largest issues this session. This week examines the plan 1 unfunded liability, specifically the Governor's approach. Next week: gain-sharing.

A. Plan 1 Unfunded Liability – “Pay Now or Pay More Later”

- There is currently a \$4 billion unfunded liability in the teachers' and public employees' plan 1 retirement system, largely the result of historic underfunding in the '70s & '80s.
 - The figure is not static, fluctuating based upon investment returns and funding policy changes. *But the liability is the highest it's been in nearly a decade, a disturbing fact.*
- Employees have a contractual right to the “sound & systematic” funding of their pension plan. Since the '90s, the state has been making payments – akin to a mortgage -- to pay off the liability by 2024.
- **The 2005 legislature chose to “skip” the \$176 million state payment, for the 2nd budget in a row.**

B. Governor's Approach – Costly for Taxpayers

- The question is whether to make the payment skipped last session. The Governor says, “No.”
 - She proposes spending \$49 million for the unfunded liability in her 2006 budget. But – and here's the catch – this is simply a down payment on the 2007-09 cost, which she proposes paying over three years, rather than two.
- The result? She pays NO money toward the 05-07 payment, despite the largest reserve in state history.
- Re-amortizing the payment – i.e., rolling it back into the amount due – is costly: **taxpayers can expect to pay \$552 M more over the next 25 years if this approach is adopted.**

C. Putting it Best

“The debate over how to best meet the state's pension obligations is healthy and necessary. The status quo – avoiding hard choices about unfunded obligations – is unacceptable.” (*Tri-City Herald* – 1/13/06)

- Unfortunately – avoiding hard choices about unfunded obligations – is what the Governor's budget proposes. This is evidenced by her plan 1 approach and, as we'll see next week, her approach to gain-sharing.

Bottom Line

Despite the largest reserve in state history (and the fastest growing budget since Gov. Lowry), the Governor's budget continues to skip the 2005-07 plan 1 unfunded liability payment. This approach is costly for taxpayers and breaks the “sound & systematic” funding obligation to employees.

Don't taxpayers and employees deserve better?